

Costessey Town Council



TREASURY STRATEGY & INVESTMENT MANAGEMENT POLICY 2020-21 - APPROVED 23/02/21

1 INTRODUCTION:

1.1 Costessey Town Council acknowledges the importance of prudently investing surplus funds / reserves held on behalf of the community by the Town Council.

1.2 The Treasury Strategy complies with the new guidance (3rd Edition) in effect from 1 April 2018 issued by the DCLG under Section 15 (1) of the Local Government Act 2003

1.3 As the guidance applies to parish councils whose total investments exceed or are expected to exceed £100,000 at any time during the financial year, Costessey TC has updated this Strategy in accordance with the guidance.

1.4 The decision to lower the financial threshold for parish councils has been taken in recognition that some parishes have begun to engage in commercial ventures. As parish councils tend to be fairly small and to obtain a greater percentage of their funding directly from council tax payers than other types of local authority, they should show that they have carefully considered how to manage the risks arising from their Strategy

1.5 Investments made by local councils can be classified into two main categories:

- Investments held for treasury management purposes
- Other investments.

1.6 The Council is committed to transparency and openness in reporting and to making it easy for informed observers to understand how good governance and democratic decision accountability have been exercised. Full accounts, budget reports, bank reconciliations and detailed balance sheets are presented to the Finance, Budgets & Staffing Committee and a summary of the accounts is presented to Councillors every month at a full Council meeting.

1.7 This Strategy should be read in conjunction with the Council's Financial Regulations and Financial Risk Assessment

1.8 The actual movement of money shall be made by the usual authorised signatories / mandate.

2 INVESTMENT OBJECTIVES:

2.1 The general policy objective of Costessey TC is, in this order:
Security of Reserves, Liquidity of Investments, Yield (SLY)

2.2 This means:

- **Security** – protecting the capital sum invested from loss;

- **Liquidity** – ensuring the funds invested are available for expenditure when needed.

2.3 Yield generation is distinct from the prudential objectives above. However, once proper levels of security and liquidity are determined, Costessey TC aims to achieve the optimum return on its Treasury Management investments (ROI).

2.4 When entering into other types of investments Council should consider the balance between security, liquidity and yield based on its risk appetite and the contribution(s) of that investment activity

2.5 Costessey TC will use its best endeavours to invest in ethical investments

CONTRIBUTION:

3.1 The Council holds investments to support effective treasury management activities

3.2 Other investments may be held to support the service delivery objectives of the Council.

4 RISKS:

4.1 A prime objective of treasury management activities is the security of the principal sums invested and this is placed ahead of the investment return. The overriding principle is that it is more important to balance risks than to maximise returns. Council will ensure that robust due diligence procedures cover all external investment.

4.2 Credit and Counterparty risk

This is the risk that the organisation with which CTC have invested money becomes insolvent and cannot pay back the investment. CTC may use limits and investment criteria including credit ratings to mitigate this risk.

Costessey TC shall only invest with deposit taking institutions and money market funds it defines as “High Credit Quality” ie having a Credit rating of “A” or above as assessed by the appropriate credit rating agencies. Investments will be limited to those counterparties who meet the criteria when the investment is placed, with the exception of the UK part-nationalised banks and the Council’s bank, and then will be limited by any relevant market information.

Investment will be spread over different providers, where appropriate, to minimise risk. All counterparties will be approved by the F,B&S Committee before initial deposits are made and will continue to be monitored to ensure that they continue to meet the investment criteria.

4.3 Liquidity risk

This is the risk that there will be insufficient cash available to make payments as they fall due. The Responsible Finance Officer will ensure that cash resources are adequate, though not excessive at all times, to enable the Council to achieve its business objectives. To retain liquidity, investments shall be placed with phased end dates ie. Investments will mature at different times. There is a “sweep” between the Saver Account and the current account with an overnight balance of £5,000 in the current account. Where Council holds a non-financial investment, it would normally have a physical asset that could be realised to

recoup the capital invested. Council would have to consider whether the asset retains sufficient value to provide security of investment.

4.4 Interest Rate risk

Interest rates will be reviewed as part of the ongoing monitoring arrangements to ensure that, as far as possible, investments are made so as to maintain the return to the Council. Costessey TC shall invest in interest-bearing term / notice deposits where the yield is sufficiently higher than that generated by the Council's Bank Saver accounts. However, regard will be given to the limits imposed by the treasury management policy, particularly the importance of maintaining the security of the monies invested.

For prudent management of its balances, whilst maintaining sufficient levels of security & liquidity, Costessey TC may invest specific reserves in short term deposits with one or more of the UK major clearing banks / building societies or appropriate money market funds that meet the ratings criteria and are approved by the F,B&S

4.5 Market risk (Move this section to 4.2 above)

CTC's long-term borrowing is currently through fixed rate maturity loans, (PWLB) whilst investments can be at both fixed and variable rates. To mitigate the risk as far as possible the Council seeks to find the appropriate balance of investments between short and long term and between variable and fixed rate.

4.6 Partnership risk

There are currently no major partnerships involving private borrowing. Some of the Council's costs may be met by 'match funding' where other organisations match the funding that the Council contributes. Where this is the case there may be a liquidity risk if the other organisations do not make their contributions when expected.

4.7 Payments in Advance & Phased Payments

Certain contractors request payment in advance or phased payments to allow them to purchase materials eg building construction, fete staging, fireworks, entertainment/ attractions bookings

4.8 Refinancing risk

CTC's borrowing arrangements are currently ONLY with the PWLB; they are structured and documented, and the maturity dates of these monies are managed. Refinancing has been investigated by the Accountant, there would be a cost which is not considered favourable to CTC. Therefore, CTC decided that the best option was not to refinance.

4.9 Currency risk

The Council does not have any foreign currency risk as all investments are in pounds sterling.

4.10 Inflation risk

The Council will keep under review the sensitivity of its treasury assets and liabilities to inflation, and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposure. Credit ratings will be monitored at least annually and any significant changes in credit ratings and interest rates will be reported to the Finance Budgets & Staffing Committee or the full Council, so it can take the necessary action to protect Council assets.

4.11 NOTE: the DCLG maintains that the borrowing of monies purely to invest, or to lend & make a return, is not in accordance with the Prudential Code and Costessey TC will not engage in such activities

5 USE OF INDICATORS:

5.1 This section removed by FB&S

6 LOANS

6.1 It is considered highly unlikely that any loans will be approved given the risk-averse nature of the Council. In exceptional cases the Council may choose to make loans to appropriate organisations as part of a wider strategy for local economic growth (even though those loans may not all be seen as prudent if adopting a narrow definition of prioritising security and liquidity),

6.2 However, if specifically requested, the Full Town Council will consider proposed loans on a case by case basis for possible authorisation, demonstrating in each situation that:

- Total financial exposure to the loan is proportionate
- Appropriate credit control arrangements to recover overdue repayments are in place
- Council has formally agreed the total level of loans by type that it is willing to make and the total loan book is within the self-assessed limit.

7 PROPORTIONALITY

7.1 Whilst the Government recognises the importance of local councils taking on debt to enhance service provision, irrespective of the source of finance, it does not believe that it should do the same for commercial investments.

8 CAPACITY, SKILLS AND CULTURE

8.1 The Council is committed to ensuring that those elected members and Council officers involved in the investments decision-making process have appropriate capacity, skills and information to enable them to take informed decisions as to whether to enter into a specific investment, to assess individual assessments in the context of the strategic objectives and risk profile of the Council and to enable them to understand how these decisions may change the overall risk exposure of the Council.

8.2 This will be achieved by:

- Training of members and officers for treasury management appropriate to the Council's circumstances eg by NTPS, NorfolkALC,
- Use of appropriate expert external advisors eg. Accountants, Business Bankers, NALC,
- Reporting to Council in the most open, clear, understandable and transparent way Possible – currently full accounts, budget reports, bank reconciliations and detailed balance sheets are presented to the Finance, Budgets & Staffing Committee and a

summary of the accounts is presented to Councillors every month at a full Council meeting.

- The use of existing regular communication procedures between members and officers to facilitate constantly improved capacity, skills and information exchange.

8.3 Also, those negotiating commercial deals should be aware of the core principles of the prudential framework and of the regulatory regime within which local councils operate. Any external representative acting on behalf of the Council must understand that they are not operating in a purely commercial environment and that the prime purpose of a local council is to deliver statutory services to local residents

- This should be made clear in a signed agreement

9 STRATEGY REVISIONS & AMENDMENTS:

9.1 The Strategy will be reviewed annually and at other times as necessary.

9.2 The Strategy will be prepared by the Clerk / RFO and presented for consideration to the Finance, Budgets & Staffing Committee before recommendations are put to the full Council.

9.3 Amendments will be approved by the full Council prior to the start of the financial year and throughout the year as necessary should credit ratings or interest rates alter substantially.

10 PUBLICATION:

10.1 Costessey TC's Investment Strategy will be published on the Council's website – www.costessey.org.uk and is also available for the Town Council's offices in hard copy, free of charge

APPENDIX 1

Expected levels of external borrowing and investments at the beginning and end of 2020-21 are estimated to be:

<u>BORROWING</u>	<u>01/04/2019 - 31/03/2020</u>	<u>01/04/2020-31/03/2021</u>
Short term borrowing	£0.00	£0.00
<u>Long term borrowing</u> (PWLB – Original terms)		
i) Breckland Hall - 2026	£100,000 @ 4.25%	£100,000 @ 4.25%
ii) Costessey Centre - 2033	£500,000 @ 3.66%	£500,000 @ 3.66%
iii) Costessey Centre - 2033	£500,000 @ 4.12%	£500,000 @ 4.12%
<u>INVESTMENTS</u>	<u>01/04/2019 - 31/03/2020</u>	
Barclays Bank Treasury Deposits - 1-year fixed term (General Reserve funded)	£140,000 @ 0.81%	

The Council has no proposals to invest sums for periods longer than 12 months

APPENDIX 2

Current counterparty list:

<u>UK Bank</u>	<u>Amount</u>	
Barclays Current a/c	£5,000 - "daily sweep"	immediate access
Barclays Salaries a/c	£30,000	immediate access
Barclays Saver a/c	Balance of funds	
Barclays (Petty Cash No2 a/c -IMPREST)	£3,000	immediate access – operated by Clerk
Barclays (Petty Cash No1 a/c -IMPREST)	£3,000	immediate access – operated by Head Groundsman

APPENDIX 3

GLOSSARY:

Capital Strategy is the strategy required by the updates to the Prudential Code and Treasury Management Code.

Credit rating agency: is one of the following three companies:
Standard & Poor's, Moody's Investors' Service Ltd; Fitch Ratings Ltd

High credit quality: investment with a credit rating of 'A' from one of the three recognised credit rating agencies above

Investment: a transaction which relies on the power of Section 12 of the Local Government Act 2003 and is recorded in the balance sheet under the heading of investments within current assets or long term investments.

investment covers all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This may therefore include investments that are not managed as part of normal treasury management processes or under treasury management delegations.

For the avoidance of doubt, the definition of an **investment** also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture, or to a third party.

The term does **NOT** include pension fund and trust fund investments, which are subject to separate regulatory regimes and are therefore not covered by the DCLG guidance.

Long-term investment: is any investment other than:

a) one which is due to be repaid within 12 months of the date on which the investment was made; or

b) one which the local authority / council may require to be repaid within that period.

Non-financial investments: non-financial assets that the organisation holds primarily or partially to generate a profit. (eg. Freehold of a building it does not occupy). Where Council holds a non-financial investment, it will normally have a physical asset that can be realised to recoup the capital invested.

Non-specified investments: any financial investment that is not a loan and does not meet the criteria to be treated as a specified investment.

Prudential Code means the statutory code of practice, issued by CIPFA:
"The Prudential Code for Capital Finance in Local Authorities, 2017 Edition"

Specified Investments: an investment is a specified investment if ALL of the following apply:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling;

b) the investment is not a *long-term investment* as defined above;

c) the making of the investment is not defined as capital expenditure by virtue of regulation 25(1)(d) of the Local Authorities (Capital Finance Accounting) (England) regulations 2003 [SI 3146 as amended];

d) the investment is made with a body or in an investment scheme of high credit quality as defined above or with one of the following bodies:

i. The United Kingdom Government;

- ii. A local authority in England or Wales (as defined in section 23 of the 2003 Act) or a similar body in Scotland or Northern Ireland; or
- iii. A parish council or community council.

Treasury Management activities: *The management of the Council's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*

Treasury Management Code: means the statutory code of practice issued by CIPFA: "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes, 2017 Edition".